abrdn Position Statement – Fossil Fuels

December 2023

The issue

Financial risks related to fossil fuels are becoming more material as pressure to decarbonise the global economy is growing. At abrdn, we fully acknowledge the role of fossil fuels in causing and exacerbating climate change. We support the goals of the Paris Agreement, are members of the Net Zero Asset Manager initiative (NZAM), and believe that urgent action is required to limit global warming to 1.5°C. This means aiming for a global net-zero-emissions economy by 2050, in which fossil fuels will only play a minor role.

On the path to that world, we need to transition to a low-carbon economy, in which fossil fuels are phased out and replaced with cost-effective and reliable alternatives. This needs to be a 'just' transition in which effects on communities, workers and energy security are carefully considered. Some regions remain heavily fossil fuel dependent and there is a lack of effective policy incentive to support rapid decarbonisation for some companies and sectors. In some industries, such as steel and cement, alternatives to fossil fuels are still costly and sometimes not yet available. Strong policy signals are therefore needed to ensure the transition can happen at the scale and pace required to meet global goals.

[1] https://www.abrdn.com/en-gb/institutional/sustainable-investing/climate-change/climate-scenario-analysis

Why is this important for investors

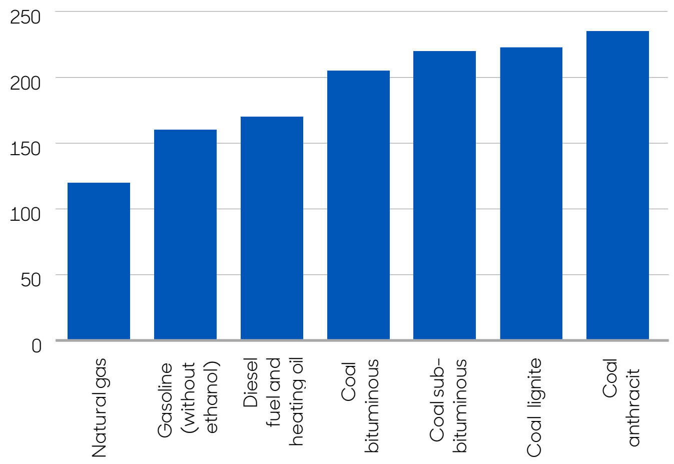
At abrdn, consideration of the financial risks and opportunities associated with climate-change is an important part of our investment process across multiple asset classes and sectors. We carefully consider fossil-fuel-related risks and the ability to transition to alternatives in our investment decisions. We undertake in-depth analysis on the financial implications of different **climate scenarios**[1] and the risk of demand destruction and increasing carbon costs, particularly for fossil-fuel-related assets. Not all fossil fuels are equal, as we detail below.

Coal is the most carbon-intensive fossil fuel. In addition to being responsible for over a third of the global temperature rise above pre-industrial levels, it has significant negative implications for air pollution and biodiversity. Unabated thermal coal used for electricity production should be eliminated as soon as it is practical. To meet the objectives of the Paris Agreement and limit global temperature increase to 1.5°C, unabated coal power generation must be phased out by 2030 in the OECD and EU, and by no later than 2040 in the rest of the world, preferably even earlier. We are members of the Powering Past Coal Alliance (PPCA) and strongly encourage the phasing out of coal within these timelines. But we also need to understand the impact it will have on communities and employment in regions that are heavily reliant on coal. Metallurgical (bituminous) coal, which is used mainly for steel production, is more difficult to replace and will therefore require a more considered phase-out.

Oil is still used significantly in transportation and industry, but alternatives are emerging and growing. It is likely that oil demand will peak in the next decade if policies are implemented to achieve the goals of the Paris Agreement. This creates a stranded-asset risk, meaning that infrastructure assets and reserves lose their value. We want to see oil & gas companies reduce their investments in fossil-fuel exploration and shift it towards low-carbon energy sources.

Natural gas has the lowest carbon intensity of all the fossil fuels. It is an important transition fuel in many regions, and we support the transition from more carbon-intensive fuels to gas where alternatives are limited. However, we also consider the risk of gas utilities and infrastructure becoming stranded in the medium to long term. Transitioning directly to low-carbon energy sources such as renewables is our preference – one we strongly encourage.

Pounds of CO^2 emitted per million British thermal units (Btu) of energy



Source: EIA, 07/09/2023.

It is also important to differentiate between conventional and unconventional production methods for oil and gas as they have different risks and impacts. For example, oil sands and unconventional gas have higher risks, so involvement should be minimised.

As a large asset manager, we have an important role to play in influencing the transition to a low-carbon world and in reducing the reliance on fossil fuels. In our view, the solution is not simply to divest from all fossil fuels today but to provide a strategy that supports real-world decarbonisation. Where clients wish to minimise exposure to carbon-intensive industries in their portfolios, we have specific products available that enable them to do so.

Our view and approach to investments

1. Engagement on aligning with the goals of the Paris Agreement

Implementing our net zero directed investing strategy necessitates active engagement year-on-year to understand climate-related risks within our holdings, drive credible progress and increased disclosure, and enable and support a 'just' energy transition. We believe that engagement on climate and environmental, social and governance (ESG) issues with fossil fuel-related companies allows us to better understand their exposure and management of climate change risks and opportunities. It also provides us with the ability to influence and outline our expectations in relation to alignment with the goals of the Paris Agreement and the PPCA. We want to steer companies towards setting ambitious targets and increasing capital allocation towards low-carbon solutions. We have initiated a two-year programme of priority engagements with our highest financed emitters in equities, with a view to seeking transparency on progress against specific transition milestones.

We also engage collaboratively with other asset managers and asset owners as part of Climate Action 100+, a five-year initiative to engage and influence high-emitting companies collaboratively.

We believe that engagement is more powerful for an effective energy transition than an absolutist approach to fossil-fuel divestment. Divestment would simply transfer our ownership to another investor who may not take their stewardship responsibilities in relation to influencing fossil-fuel companies as seriously as we do. We set clear milestones for our engagements and expect to see evidence of action. If we find that there is limited progress in response to our engagement, our investment teams will carefully consider the consequences. This may mean reducing our positions or completely selling our holdings in fossil-fuel-related companies.

2. Investing in low-carbon transition leaders

Many of today's energy companies need to become the leaders of a successful energy transition and align themselves with the Paris Agreement to limit warming to 1.5°C. We want to support companies in their transformation where they have or are developing credible strategies to become transition leaders.

In our view, companies that successfully manage climate-change risks and reduce their emissions will perform better in the long term.

Our climate toolkit supports decision-making across our investment process at different levels of integration. For example, we have on-desk tools to provide climate scenario analysis and the carbon footprint of portfolios and individual companies held, and this supports the assessment of investment risks and opportunities with climate- related information factored in. Many companies have set ambitious targets, but some are more credible than others. In response, we have built a bespoke credibility
assessment framework to assess target credibility, which will enable us to value securities more accurately and draw finer conclusions from our scenario analysis.

3. Voting and shareholder resolutions

As active managers, we have another important means of influencing when our engagement hasn't succeeded: escalation via voting and support of shareholder resolutions. That's how we can publicly reflect our view on the need for a Paris-aligned low-carbon transition.

At abrdn, we have a well-resourced stewardship team with dedicated proxy-voting capability that can provide escalation on climate-related matters. We have developed an approach to provide informed voting on the increasing number of climate-related shareholder resolutions. We actively analyse and consider these resolutions and do not just apply a blanket tick-box approach. We expect and encourage companies to: demonstrate that a robust methodology underpins Paris-aligned, net zero goals and targets; set targets for absolute emission reduction, not just carbon intensity, to show a clear pathway to net zero; report in alignment with the TCFD framework; link targets to remuneration and ensure they are reflected in capital expenditure and R&D plans; carefully manage climate-related lobbying by ensuring appropriate oversight, transparent disclosure, and alignment of activities with the company's strategy.

4. Investing in low-carbon infrastructure and real estate

While it is critical to influence the capital allocation of fossil-fuel companies, we also invest capital directly in low-carbon assets to help reduce reliance on fossil fuels. We have increased our investment in green infrastructure, such as renewables, and have committed to net-zero-carbon-emission buildings by 2050 in all our real estate investments.

Important Information

Investment involves risk. The value of investments and the income from them can go down as well as up and an investor may get back less than the amount invested.

The information in this document is not for general circulation and should not be considered an offer, or solicitation, to deal in any funds. The information is provided on a general basis for information purposes only, and is not to be relied on as investment, legal, tax or other advice, as it does not take into account the investment objectives, financial situation or particular needs of any specific investor.

Any research or analysis used to derive, or in relation to, the information herein has been procured by abrdn for its own use, and may have been acted on for its own purpose. The information herein, including any opinions or forecasts have been obtained from or is based on sources believed by abrdn to be reliable, but abrdn does not warrant the accuracy, adequacy or completeness of the same, and expressly disclaims liability for any errors or omissions. As such, any person acting upon or in reliance of these materials does so entirely at his or her own risk. Past performance is not necessarily indicative of future performance. Any projections or other forward-looking statements regarding future events or performance of countries, markets or companies are not necessarily indicative of, and may differ from, actual events or results. No warranty whatsoever is given and no liability whatsoever is accepted by abrdn, for any loss, arising directly or indirectly, as a result of any action or omission made in reliance of any information, opinion or projection made in this document.

The information herein shall not be disclosed, used or disseminated, in whole or part, and shall not be reproduced, copied or made available to others. abrdn reserves the right to make changes and corrections to the information, including any opinions or forecasts expressed herein at any time, without notice.

This communication constitutes marketing, and is available in the following countries/regions and issued by the respective abrdn group members detailed below. abrdn group comprises abrdn plc and its subsidiaries:
(entities as at 04 December 2023)

United Kingdom (UK)

abrdn Investment Management Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated in the UK by the Financial Conduct Authority.

Europe[1], Middle East and Africa

[1] In EU/EEA for Professional Investors, in Switzerland for Qualified Investors - not authorised for distribution to retail investors in these regions.

Belgium, Cyprus, Denmark, Finland, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, and Sweden: Produced by abrdn Investment Management Limited which is registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority in the UK. Unless otherwise indicated, this content refers only to the market views, analysis and investment capabilities of the foregoing entity as at the date of publication. Issued by abrdn Investments Ireland Limited. Registered in Republic of Ireland (Company No.621721) at 2 -4 Merrion Row, Dublin D02 WP23. Regulated by the Central Bank of Ireland. **Austria, Germany**: abrdn Investment Management Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated by the Financial Conduct Authority in the UK. **Switzerland**: abrdn Investments Switzerland AG. Registered in Switzerland (CHE-114.943.983) at Schweizergasse 14, 8001 Zürich. **Abu Dhabi Global Market ("ADGM")**: abrdn Investments Middle East Limited, 6th floor, Al Khatem Tower, Abu Dhabi Global Market Square, Al Maryah Island, P.O. Box 764605, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. For Professional Clients and Market Counterparties only. **South Africa**: abrdn Investments Limited ("abrdnIL"). Registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen AB10 1XL. abrdnIL is not a registered Financial Service Provider and is exempt from the Financial Advisory And Intermediary Services Act, 2002. abrdnIL operates in South Africa under an exemption granted by the Financial Sector Conduct Authority (FSCA FAIS Notice 3 of 2022) and can render financial services to the classes of clients specified therein.

Asia-Pacific

Australia and New Zealand: abrdn Oceania Pty Ltd (ABN 35 666 571 268) is a Corporate Authorised Representative (CAR No. 001304153) of AFSL Holders MSC Advisory Pty Ltd, ACN 607 459 441, AFSL No. 480649 and Melbourne Securities Corporation Limited, ACN 160 326 545, AFSL No. 428289. In New Zealand, this material is provided for information purposes only. It is intended only for wholesale investors as defined in the Financial Markets Conduct Act (New Zealand). **Hong Kong**: abrdn Hong Kong Limited. This material has not been reviewed by the Securities and Futures Commission. **Japan**: abrdn Japan Limited Financial Instruments Firm: Kanto Local Finance Bureau (Kinsho) No.320 Membership: Japan Investment Advisers Association, The Investment Trusts Association, Type II Financial Instruments Firms Association. **Malaysia**: abrdn Malaysia Sdn Bhd, Company Number: 200501013266 (690313-D). This material has not been reviewed by the Securities Commission of Malaysia. **Thailand**: Aberdeen Asset Management (Thailand) Limited. **Singapore**: abrdn Asia Limited, Registration Number 199105448E.

Americas

Brazil: abrdn Brasil Investimentos Ltda. is an entity duly registered with the Comissão de Valores Mobiliários (CVM) as an investment manager. **Canada**: abrdn is the registered marketing name in Canada for the following entities: abrdn Canada Limited, abrdn Inc, abrdn Investments Luxembourg S.A., abrdn Private Equity (Europe) Limited, abrdn Capital Partners LLP. abrdn Canada Limited is registered as a Portfolio Manager and Exempt Market Dealer in all provinces and territories of Canada as well as an Investment Fund Manager in the provinces of Ontario, Quebec, and Newfoundland and Labrador. **United States**: abrdn is the marketing name for the following affiliated, registered investment advisers: abrdn Inc., abrdn Investments Ltd., abrdn Asia Limited, abrdn Private Equity (Europe) Limited, abrdn ETFs Advisors LLC.

For more information visit abrdn.com

121311